

AB 9xxx
Oil Severance and Windfall Profits Taxes Q&A

1. *Won't these taxes just be passed along to the consumer through higher gasoline prices?*

- The bill contains explicit language to prohibit the tax from being passed along, and provides the state Board of Equalization with authority to monitor and investigate instances where producers or purchasers of oil have attempted to gauge consumers.
- Oil and gasoline prices are set in a global market, and a change in tax law in California won't have an effect on the consumer, anyway, especially given that other oil-producing states in America already have some kind of severance tax already.

2. *Since this measure only raises about a billion dollars, it won't solve the budget dilemma. Aren't your revenue estimates are probably overstated?*

- Of course it won't solve our \$7.5 billion budget shortfall, but \$1.2 billion is a big down payment. And this is just the first of many actions we'll be taking on the budget.
- Our estimates are not overstated and, if anything, are probably conservative. They come from the state Board of Equalization and Franchise Tax Board.

3. *Aren't you just picking on a product in a single industry?*

- No. Oil is a unique commodity. Unlike most other products and services, Californians are "captive" to this industry, because everyone has to use oil.
- By almost any standards, oil companies are doing quite well. In fact, the extra profits oil companies are making is having a direct negative consequence on those other products and services used by Californians.

4. *Congress repealed the federal windfall profits tax back in 1988 when they found it didn't work. What makes you think that a state windfall profits tax is any better?*

- The federal windfall profits tax and what we are proposing in AB 9xxx are very different. The federal tax was much more complex and also related to federal price controls. AB 9xxx levees a simple tax, at a reasonable rate, on big profits in the petroleum industry.
- By 1988, oil prices had declined substantially from their early 1980s peak, so excess profits were no longer prevalent. The situation today is very different.

5. *By dedicating the money to education, doesn't this just inflate the Proposition 98 base and make our budget problem worse in the out-years?*

- No. The money from this bill will reduce the amount of cuts we would otherwise need to make. It won't raise the minimum guarantee.

6. *What's the nexus of taxes on oil and funding for schools?*

- "Nexus" is only an issue with respect to spending money raised from fees, not taxes. Besides, with the petroleum industry making record profits, it is completely appropriate that they share with the citizens of California, and education is the biggest area of expenditure in the state budget.